



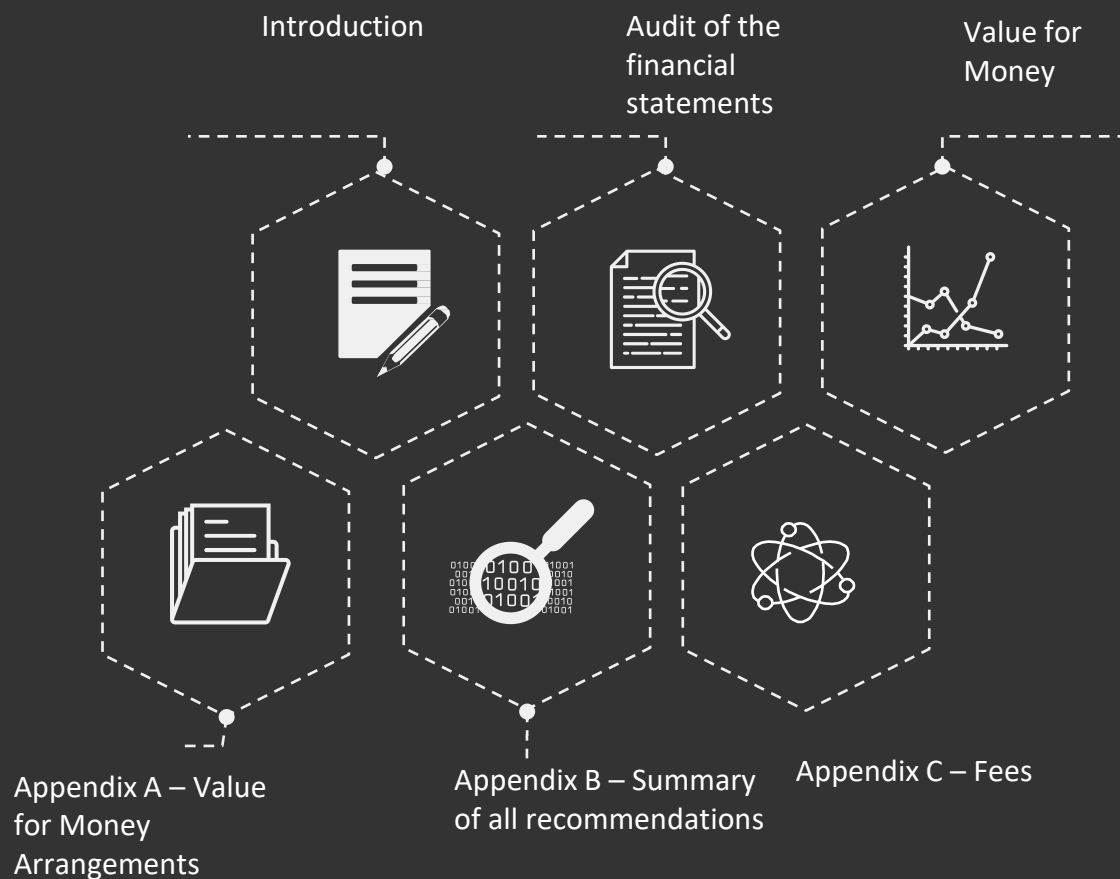
**East Suffolk Council**

**Auditor's Annual Report**

December 2023

Year ended 31 March 2021

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Council and management of East Suffolk Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Council and management of East Suffolk Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Council and management of East Suffolk Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# Introduction

## **Purpose**

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued in September 2021. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the Annual Governance Statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements, narrative statement and Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



## Introduction (continued)

### 2020/21 Conclusions

<b>Financial statements</b>	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. We issued our auditor’s report on xx December 2023.
<b>Going concern</b>	We have concluded that the Finance Director’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
<b>Consistency of the other information published with the financial statement</b>	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
<b>Value for money (VFM)</b>	We have completed our consideration of the impact of the Council’s non compliance with the rent standard on our reporting in relation to the Council’s value for money arrangements and our audit report. We have concluded that the non compliance represents a significant weakness in governance arrangements in 2020/21, and are therefore reporting by exception details of the significant weakness in our auditor’s report. We have also included consideration of this in our VFM commentary within this report.
<b>Consistency of the annual governance statement</b>	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
<b>Public interest report and other auditor powers</b>	We had no reason to use our auditor powers.
<b>Whole of government accounts</b>	Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the NAO. As the Council falls below the £2 billion threshold for review as per the NAO’s 2021/21 group instructions, we do not have to perform any detailed procedures. The NAO has also confirmed that they do not require any additional audit procedures to be undertaken on east Suffolk District Council. We will therefore issue our assurance statement alongside our audit opinion.
<b>Certificate</b>	We will issue our certificate as part of our audit report.



# Audit of the financial statements

## Key findings

The Narrative Statement and Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On xx December 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit and Governance Committee on 11 December 2023 through our updated Audit Result Report. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

## Significant/Fraud Risk

## Conclusion

### Misstatements due to fraud or error(Fraud risk )

There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We did not identify any material weaknesses in controls or evidence of material management override. We did not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

### Inappropriate capitalisation of revenue expenditure (Fraud risk)

Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Council's capital programme

We did not identified any revenue items that have been inappropriately capitalised from our substantive testing.

### Provision for non compliance with rent standard (Significant risk)

The Code defines a provision as a liability of uncertain timing or amount. A provision should be recognised when: the Council has a present obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made. There is a risk that the Council may not appropriately calculate the provision required in relation to the historic overcharging of rents due to non compliance with the rent standard

We are satisfied that a provision is required in relation to the rents that have been overcharged as the Council has a present obligation as a result of a past event and a reliable estimate of the liability can be calculated. We are satisfied that the resulting provisions of £3.757 million in 2020/21 and £3.357 million in 2019/20 are materially accurate and that the Council has made adequate disclosure of the issue in the financial statements and Annual Governance Statement. The resulting amendment to the prior year accounts has been subject to internal EY consultation which has confirmed that the amendment and associated disclosure are appropriate.



# Audit of the financial statements

## Areas of audit focus

### Accounting for infrastructure assets

In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code, these assets are held at depreciated historic cost. It has been identified that, whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost/gross accumulated depreciation are therefore continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated. East Suffolk Council has material infrastructure assets of £57.9 million (gross book value) and £29.9 million (net book value) held on its balance sheet at 31 March 2021. There is therefore a risk that the gross book value and accumulated depreciation may be materially misstated

### Valuation of land & buildings and investment properties

The valuation of land and buildings represent significant balances in the Council's accounts and is subject to valuation changes. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is therefore a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.

Property, plant and equipment (PPE) (of which land and buildings and dwellings represent the vast majority) and investment property are significant balances in the Council's accounts. As at 31 March 2021, PPE totals £376.4 million (2019/20: £362.3 million) and investment properties £5 million (2019/20: £2.9 million).

### Pension liability valuation and disclosures

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. As per the draft accounts, this liability amounts to £84.3 million as at 31 March 2021, (2019/20: £52.9 million).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

## Conclusion

Our review of the records held and accounting entries focused on assets held within the Coast Protection and Harbour sub-categories, as these were the only categories of assets that were material and therefore the only categories that could contain a material overstatement.

Based on the work carried out, we obtained reasonable assurance that infrastructure assets are free from material misstatement and are appropriately recognised in the Council's accounts.

Our work on the valuation of land and buildings included performing procedures to assess whether we could place reliance on the Council's valuers, and reviewing assets not subject to valuation in 2020/21 to confirm that they were not materially misstated. We also engaged our valuations specialist to review a sample of asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used,

Based on the work carried out we did not identify any issues and our internal valuers and concluded that the valuations they reviewed were supportable and within the ranges calculated.

Our work on pensions included reviewing and agreeing the accounting entries and pension disclosures in the draft financial statements and assessing the work of the actuary. We also obtained assurances from the Pension Fund auditor in relation information provided to the actuary. The Pension fund auditor reported a difference of £0.6 million in the valuation of investment assets due to the actuary basing the figures in their report on estimated rather than actual year end values due to the timing of their report. The Council has not amended the accounts for this difference, which is not material.

We also engaged an EY Pensions specialist to review the actuary reports and run a parallel actuarial model to estimate the pension liability, which was compared to that produced by the Council's actuary. This did not identify any significant difference.





# Audit of the financial statements

## Areas of audit focus

## Conclusion

### Going concern disclosures

Covid has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. At the time of preparation of the 2020/21 financial statements, there was not a clear statement of financial support from MHCLG (now DLUHC) that covered all financial consequences of Covid-19. In addition, the auditing standard, International Auditing Standard 570 Going Concern, has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council is the audit of the 2020/21 financial statements. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an Council's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.

However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

We reviewed and evaluated the Council's updated going concern disclosures within the financial statements and associated financial viability disclosures within the Narrative Statement. On this basis of this review, we are satisfied that there are no material uncertainties that require disclosure and that the Council's assessment and related disclosures are appropriate and cover a period to March 2025, which is more than 12 months from the date the accounts are authorised for issue.

### Recognition of grant income associated with Covid-19

Central Government has provided a number of new and different Covid related grants to local authorities during the year. There are also funds that have been provided for the Council to distribute to other bodies. The Council needs to review each of these grants to establish how they should be accounted for. The Council needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. Where the decision is that the Council is a principal, it must also assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

To address this risk we identified the revenue and capital grants received by the Council and carried out testing to ensure the accounting treatment and recognition applied to grant income is appropriate, taking into account any conditions that would impact on their recognition. We also checked that the Council has adequately disclosed grant income received in the year  
Our work did not identified any issues.

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**We identified a risk of significant weaknesses in the Council's VFM arrangements for 2020/21.**

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**Our VFM commentary highlights relevant issues for the Council and the wider public.**

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**We have concluded that the failure to take timely action when the non compliance was initially identified late in 2019 represents a significant weakness in governance arrangements in 2020/21.**

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### Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the Council which was based on a combination of our cumulative audit knowledge and experience, our review of Council reports, meetings with officers and evaluation of associated documentation through our regular engagement with Council management and the finance team.

### Reporting

Our risk assessment procedures identified a risk of significant weakness in relation to the Council's governance arrangements to respond to a non compliance with the rent standard between March 2020 and November 2021.

Having completed our procedures to respond to this risk, we have concluded that the failure to take timely action when the non compliance was initially identified represents a significant weakness in governance arrangements in 2020/21. We have therefore reported by exception details of the significant weakness in our auditor's report.

We have included detailed commentary on this matter on pages 9 to 10 of this report.

Our commentary for 2020/21 on the Council's overall arrangements is set out on pages 13 to xx, where also note how the significant weakness we have identified impact on the sub criteria. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2020/21.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria.



**We identified a risk of significant weaknesses in the Council’s VFM arrangements for 2020/21.**

**Our VFM commentary highlights relevant issues for the Council and the wider public.**

**We have concluded that the failure to take timely action when the non compliance was initially identified late in 2019 represents a significant weakness in governance arrangements in 2020/21.**

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<p><b>Financial sustainability:</b> How the Council plans and manages its resources to ensure it can continue to deliver its services</p>	<p>No significant risks identified</p>	<p>No significant weaknesses identified</p>
<p><b>Governance:</b> How the Council ensures that it makes informed decisions and properly manages its risks</p>	<p>We identified a significant risk in relation to the Council’s failure to take timely action in relation to non compliance with the rent standard between when it was initially identified and November 2021.</p>	<p>There were significant weaknesses in the governance arrangements within the Council, and in particular within the Housing Department, of East Suffolk Council during 2020/21.</p> <p>The weaknesses, in particular, relate to:</p> <ul style="list-style-type: none"> <li>• Lack of adequate controls to ensure compliance with laws and regulations – specifically in relation to housing services</li> <li>• Lack of adequate governance and risk management procedures to ensure there was an adequate response when the non-compliance issue was identified</li> <li>• Lack of adequate governance arrangements to ensure appropriate communication of the issue with senior management and members as well as internal and external audit on a timely basis</li> </ul>
<p><b>Improving economy, efficiency and effectiveness:</b> How the Council uses information about its costs and performance to improve the way it manages and delivers its services</p>	<p>No significant risks identified</p>	<p>No significant weaknesses identified.</p>



## Value for Money (continued)

### Significant weakness in governance arrangements – key findings:

In our view, there were significant weaknesses in the governance arrangements within the Council, and in particular within the Housing Department, of East Suffolk Council during 2020/21.

Our judgement on the nature of the weakness identified that:

- During 2019/20, the Council identified a possible breach of regulations relating to the conversion of rental charges on its social housing from social to affordable rents. The Council obtained legal advice on the matter, which it received in February 2020. This recommended that the Council self-referred to the Social Housing Regulator. At this point the Council wrote to the Ministry of Housing, Communities and Local Government (MHCLG). They did not receive a response from MHCLG and did not follow up on the issue until November 2021. Management did not inform internal or external audit of the issue until December 2021.
- No action was taken by the Council to progress the matter between March 2020 and November 2021.

We have concluded that there were significant weakness in the Council's governance arrangements, in particular within the housing department, in 2020/21. The weaknesses, in particular, relate to:

- Lack of adequate controls to ensure compliance with laws and regulations – specifically in relation to housing services
- Lack of adequate governance and risk management procedures to ensure there was an adequate response when the non-compliance issue was identified
- Lack of adequate governance arrangements to ensure appropriate communication of the issue with senior management and members as well as internal and external audit on a timely basis

The evidence on which our view is based includes:

- The legal advice obtained by the Council in February 2020 regarding the continued conversion of properties from social to affordable rents;
- The February 2022 report from external consultants on their review of the Council's approach to rent setting against the Regulator of Social Housing Rent Standard which was commissioned by the Council;
- Further legal advice obtained by the Council in March 2022 to provide a second opinion in relation to the regulatory compliance issues and also in relation to whether or not some of the charges that have been levied have been properly charged, whether as rent or service charges;
- The output from a forensic review of rent charges commissioned by the Council from external consultants to ensure that any overpayments were returned to affected tenants;
- The Council's calculation of the estimated provision required in relation to overcharged service charges included in the 2020/21 accounts based on the external consultants' forensic review; and
- The June 2023 report from the Governance Review of Housing Services which was commissioned by the Council.

The impact on the Council is set out below:

- An independent review, concluded in February 2022, confirmed that by continuing to convert rents from social to affordable rents above the level permitted by regulation, the Council had breached housing regulations. At this point, the Council self-referred to the Social Housing Regulator.
- The external consultants also identified incorrect inclusion of heating service charges in rents and a failure to comply with home consumer standards, in particular fire safety.
- As a result of the conversion and rent setting issues, rent had been overcharged for several years. Following further legal advice that confirmed the Council had a legal obligation to repay these overcharges, the Council reengaged the external consultants to undertake a detailed review of all tenancies going back to 2010/11 to identify the level of overcharge for each individual tenant
- Following the completion of this work the Council has taken action to remedy the situation and has made tenants aware of the issue and their right to repayment. In early 2022, they put in place a new compliance dashboard which will provide real-time recording, as well as an HRA Asset Management and Compliance Strategy. They also commissioned an external Governance Review of Housing Services which reported in June 2023.

**Significant weakness in governance arrangements – Key findings (cont'd):**

- Following the completion of this work the Council has taken action to remedy the situation and has made tenants aware of the issue and their right to repayment. In early 2022, they put in place a new compliance dashboard which will provide real-time recording, as well as an HRA Asset Management and Compliance Strategy. They also commissioned an external Governance Review of Housing Services which reported in June 2023.
- The Council have included a provision of £3.8 million in the 2020/21 financial statements for the repayments due to housing tenants in relation to overcharging of services charges. Comparator figures in the accounts have also been restated to reflect a provision of £3.6 million as at 31 March 2020.
- In addition, the Council has concluded that it has a constructive obligation to repay overcharged rent as a result of incorrect conversion and has included a provision of £4.17 million in its 2022/23 financial statements, along with £4.50 million in relation to overcharged service charges.

The weakness in arrangements exposed the Council to financial losses as a result of overcharging of rent and service charges. In addition, the Council incurred costs of around £300,000 in investigating the issue and quantifying the sums due for repayment. The Council was also exposed to reputational damage due to the failure to take appropriate and timely action when the incorrect rent conversion was initially identified as a potential issue in 2019/20 and then in February 2020 when the legal advice confirmed the non-compliance with the rent standard due to the rent conversions. The failure to comply with home consumer standards is also a reputational risk for the Council and this also has financial implications.

**We recommend that the Council:**

- Implement the recommendations from the external review of the governance arrangements in the housing department as a priority
- Put appropriate governance arrangements in place to ensure that any suspected non-compliance with regulations in any department are reported to senior management and an appropriate Committee of the Council as well as internal and external audit on a timely basis
- Put appropriate governance arrangements in place to ensure any risks related to suspected non-compliance with regulations are included in the Service or Corporate risk register in a timely manner and that any action plans to address any non-compliance are progressed in a timely manner

**Management response**

When the Council identified it believed it was non-compliant with the RSH Rent Standard it immediately commissioned a significant forensic audit. This was to ensure a robust and in-depth review of every tenancy record held from 2010 to present day was checked for any overcharging or erroneous service charges, which may have been levied. A Rents Development Group was created in the Summer of 2022. The Group developed the first Rent and Service Charge Policy for the Council which was approved by Cabinet on 7 March 2023. The group will oversee the rent refund programme and will review the annual rent setting process, ensuring an annual sample audit is conducted by external specialists, who specialise in rent regulation.

With the Council's self-referral letter to the Regulator of Social Housing (RSH), the Council committed to an independent governance review which was reported to the Audit & Governance Committee on 10 July 2023, along with a management response to the review recommendations which have been accepted and actioned (or are in the process of being actioned) so that best practice and good governance arrangements are in place moving forward to support decision making and to help identify, manage, mitigate and monitor risks. The Council has taken significant steps to address the shortcomings identified in the review and to prevent recurrence. Corporate Leadership Team (CLT) meetings have agenda items with specific focus on key areas, which includes Governance and Risk. Minutes are taken of CLT meetings and actions are followed up. Where the work of internal audit identifies high level risks these are considered and incorporated into the Corporate Risk Register. The Chief Executive also convenes quarterly 'golden triangle' meetings of the Chief Executive, Section 151 Officer and Monitoring Officer. A Constitution Review Working Group was established in July 2023 and a review of the Constitution is in progress. Governance training will be prepared and delivered on the revised Constitution to elected Members, existing staff, with a focus on the Corporate Leadership Team.

# Appendices



## Appendix A – Summary of arrangements

### Financial Sustainability

#### Reporting Sub-Criteria

#### Findings

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The finance team works with service areas throughout the year to collate information on financial pressures for consideration in the annual budget and MTFS. Each year the Finance team prepares a budget for the budget year, and the Medium Term Financial Strategy (MTFS) which sets out indicative budgets for three further years. The MTFS includes assumptions about all known expenditure and income over that period. This is taken to Full Council in February each year for approval. The Council prepares a capital strategy alongside the revenue budget for the same time period, with the revenue implications of the capital strategy included within the revenue budget.

The 2020/21 Budget was reported to Full Council on 26 February 2020. The 2021/22 Budget was reported to Full Council on 24 February 2022. The financial implications from Covid were significant in 2020/21 and became the main focus of the MTFS planning in 2020/21. A report on the financial implications of Covid was reported to Cabinet on 21 July 2020 which included an updated forecast on the budget gap over the MTFS period. An MTFS update was prepared in the Autumn of 2020 and reported to Cabinet on 1 December 2020 and Scrutiny on 17 December 2020 and confirmed on 10 February 2021. All relevant reports to Council, Cabinet and other Committees have financial implications identified and the links to the Financial Sustainability theme of the East Suffolk Strategic Plan is outlined.

How the body plans to bridge its funding gaps and identifies achievable savings

The latest MTFS (2021/22-2024/25) that was presented on 5 January 2021 shows that although the Council has been able to bridge the gap for the years 2020/21 and 2021/22, there is still a budget gap for the years 2022/23 onwards which needs to be addressed. The 2020/21 Budget reported to Full Council on 26 February 2021, noted that the use of reserves was planned to bridge a funding gap for 2020/21. An updated General Fund Budget and Council Tax Report 2022/23 dated 1 February 2022 showed that the 2022/23 Budget Gap had closed and showed a surplus position from 2023/24 up to 2025/26. For 2020/21 the Council's General Fund realised a surplus year end position of £1.107 million as noted in the Outturn Report 2020/21 dated 13 July 2021. The Council's objective is always to have a balanced budget in each of the next two financial years when the budget is approved in the February of each year, to demonstrate that the Surplus Savings Reserve provides sufficient headroom to manage funding gaps.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The finance team works with service areas throughout the year to collate information on financial pressures for consideration in the annual budget and MTFS. All relevant reports to Council, Cabinet, and Committees have their financial implications identified and the links to the Financial Sustainability theme of the East Suffolk Strategic Plan is outlined.

## Appendix A – Summary of arrangements

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### Financial Sustainability

#### Reporting Sub-Criteria

#### Findings

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The MTFs is complied in conjunction with the capital programme and the East Suffolk Strategic Plan. The finance team works with service areas throughout the year to collate information on financial pressures for consideration in the annual budget and MTFs. All relevant reports to Council, Cabinet, and Committees have their financial implications identified and the links to the Financial Sustainability theme of the East Suffolk Strategic Plan is outlined. The Council has a Corporate Governance Group. Membership of the Corporate Governance Group is those officers that hold statutory roles within the Council, such as Monitoring Officer, Section 151 Officer and Head of Internal Audit. The group met regularly to discuss management of finances and issues related to governing business e.g. value for money / Medium Term Financial Strategy (MTFS) etc.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Budget reports to the full Council identifies risk, their impact, probability and mitigating action. The budget to the Full Council in February also includes the CFO's report. This report includes a financial risk assessment of key areas and a sensitivity analysis of budget assumptions.



## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

#### Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Budget and MTFS are continuously monitored and updated. The Council has a Corporate Governance Group. Membership of the Corporate Governance Group is for those officers that hold statutory roles within the Council, such as Monitoring Officer, Section 151 Officer and Head of Internal Audit. The group met regularly to discuss management of finances and issues related to governing business e.g. value for money / Medium Term Financial Strategy (MTFS) etc. The East Suffolk Annual Report contains the KPI's reported and monitored internally on a quarterly basis. The annual report sets out performance against the Council's Strategic Plan.

**We concluded that the failure to take timely and appropriate action in relation to the housing rent non compliance noted on pages 9 and 10, represents a significant weakness in governance arrangements, in particular within the Housing Department, during 2020/21. Specifically, we identified a weakness in relation to how the Council monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.**

How the body approaches and carries out its annual budget setting process

The Finance team works with service areas throughout the year. This information is collated and incorporated into the MTFS. A draft MTFS is reported to Cabinet and the Scrutiny Committee in the Autumn, providing Scrutiny with the opportunity to challenge assumptions. Following the reporting of the draft MTFS, the Budget Report for the following financial year is reported to Cabinet and Scrutiny (January/February) and then Full Council in February.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The council follows the Financial Procedure Rules as per the Constitution. Service area financial management reports are available on the Council's intranet which are updated daily. The Finance team have in place a detailed year end closedown plan for the year end closure of the Accounts. Year end timetables are communicated to SMT and relevant Officers of the Council.

The Council has a Corporate Governance Group. Membership of the Corporate Governance Group is those officers that hold statutory roles within the Council, such as Monitoring Officer, Section 151 Officer and Head of Internal Audit. The group met regularly to discuss management of finances and issues related to governing business e.g. value for money / Medium Term Financial Strategy (MTFS).

## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

#### Findings

The Council has a Corporate Governance Group. Membership of the Corporate Governance Group is those officers that hold statutory roles within the Council, such as Head of Paid Service, Monitoring Officer, Section 151 Officer and Head of Internal Audit. The group met regularly to discuss management of:

- finances and governing business (value for money / Medium Term Financial Strategy (MTFS) and budget setting /risk management/internal audit/ ethical issues/ business continuity);
- resources (workforce planning / recruitment monitoring / absences / health & safety / asset management); and
- performance (inspections / business plan / service plans / partnerships / measuring performance / emerging issues).

**We concluded that the failure to take timely and appropriate action in relation to the housing rent non compliance noted on pages 9 and 10, represents a significant weakness in governance arrangements, in particular within the Housing Department, during 2020/21. Specifically, we identified a weakness in relation to how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.**

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Protocols and Codes of Conduct reviewed as part of the new Constitution for ESC, and kept under review. Training about ethical standards is provided to Councillors at time of election, as part of induction programme, with follow up training as required, either as part of a regular update, or specifically following a complaint, if required. Councillor declarations of interest had been completed by new councillors and are updated annually. Regular reminders about standards are issued to staff within bulletins and team meetings. Declarations of interests, gifts and hospitality are made and monitored by the Audit and Governance Committees. However based on our initial work performed and enquiries made with management, we have identified a significant risk in relation to the Council's non compliance with the rent standard and how this issue has been dealt with since it was initially identified.

**We concluded that the failure to take timely and appropriate action in relation to the housing rent non compliance noted on pages 9 and 10, represents a significant weakness in governance arrangements, in particular within the Housing Department, during 2020/21. Specifically, we identified a weakness in relation to how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements.**

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	The East Suffolk Annual Report contains the KPI's reported and monitored internally on a quarterly basis. The annual report sets out performance against the Council's Strategic Plan.
How the body evaluates the services it provides to assess performance and identify areas for improvement	The East Suffolk Annual Report contains the KPI's reported and monitored internally on a quarterly basis. The annual report sets out performance against the Council's Strategic Plan.
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	The Council works in partnership wherever possible to gain synergies of working together with other organisations and local authorities. Full review of the leisure contract with Sentinel Leisure Trust and a procurement exercise was put in place to reduce the financial risk to the council of Leisure contracts. The contract with Sentinel Leisure Partnership ceased and a full procurement process has taken place. Everyone Active has been appointed as the successful bidder, and the contract term commenced in January 2021. A major review has started of the contract and services provided by Norse. Norse Partnership Board meetings are held quarterly. In 2021/22 Governance Meetings with Norse have also been established.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	Procurement process are set out in the Constitution. In the Summer of 2020, a motion was raised at a meeting of East Suffolk's Full Council regarding how the authority procures goods, works and services. A Task and Finish Group on Procurement was established. The recommendations of the Group was reported to Cabinet in July 2021. In July 2021 the Council commissioned work from the East of England LGA to carry out a review of procurement processes. The Council is awaiting the EELGA results before finalising the Procurement Strategy.

## Appendix B – Summary of all recommendations

### Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2020/21. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
<p>There were significant weaknesses in the governance arrangements within the Council, and in particular within the Housing Department, of East Suffolk Council during 2020/21.</p> <p>The weaknesses, in particular, relate to:</p> <ul style="list-style-type: none"> <li>• Lack of adequate controls to ensure compliance with laws and regulations – specifically in relation to housing services</li> <li>• Lack of adequate governance and risk management procedures to ensure there was an adequate response when the non-compliance issue was identified</li> <li>• Lack of adequate governance arrangements to ensure appropriate communication of the issue with senior management and members as well as internal and external audit on a timely basis</li> </ul>	<p>Implement the recommendations from the external review of the governance arrangements in the housing department as a priority</p> <p>Put appropriate governance arrangements in place to ensure that any suspected non-compliance with regulations in any department are reported to senior management and an appropriate Committee of the Council as well as internal and external audit on a timely basis</p> <p>Put appropriate governance arrangements in place to ensure any risks related to suspected non-compliance with regulations are included in the Service or Corporate risk register in a timely manner and that any action plans to address any non-compliance are progressed in a timely manner</p>	<p>When the Council identified it believed it was non-compliant with the RSH Rent Standard it immediately commissioned a significant forensic audit. This was to ensure a robust and in-depth review of every tenancy record held from 2010 to present day was checked for any overcharging or erroneous service charges, which may have been levied. A Rents Development Group was created in the Summer of 2022. The Group developed the first Rent and Service Charge Policy for the Council which was approved by Cabinet on 7 March 2023. The group will oversee the rent refund programme and will review the annual rent setting process, ensuring an annual sample audit is conducted by external specialists, who specialise in rent regulation.</p> <p>With the Council’s self-referral letter to the Regulator of Social Housing (RSH), the Council committed to an independent governance review which was reported to the Audit &amp; Governance Committee on 10 July 2023, along with a management response to the review recommendations which have been accepted and actioned (or are in the process of being actioned) so that best practice and good governance arrangements are in place moving forward to support decision making and to help identify, manage, mitigate and monitor risks. The Council has taken significant steps to address the shortcomings identified in the review and to prevent recurrence. Corporate Leadership Team (CLT) meetings have agenda items with specific focus on key areas, which includes Governance and Risk. Minutes are taken of CLT meetings and actions are followed up. Where the work of internal audit identifies high level risks these are considered and incorporated into the Corporate Risk Register. The Chief Executive also convenes quarterly 'golden triangle' meetings of the Chief Executive, Section 151 Officer and Monitoring Officer. A Constitution Review Working Group was established in July 2023 and a review of the Constitution is in progress. Governance training will be prepared and delivered on the revised Constitution to elected Members, existing staff, with a focus on the Corporate Leadership Team.</p>

## Appendix C – Fees

### Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted. We carried out our audit of the Council's financial statements in line with PSAA's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

Audit Fees	Final Proposed Fee 2020/21	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
Scale fee - Code work	65,640	65,640	69,964
Changes in work required to address professional and regulatory requirements & scope changes associated with risk - Note 1	TBC	39,360	-
Additional fee agreed in 2019/20 - Note 1	-	-	33,136
Additional work required in 2020/21 - Note 2	TBC	TBC	-
Additional work required due to changes in auditing standards for estimates - Note 3	TBC	2,500	-
Additional work required due to change in scope of VFM work - Note 3	TBC	6,000-11,000	-
Non-audit Fee - Housing subsidy claim	TBC	TBC	25,935
<b>Total Audit Fees</b>	<b>TBC</b>	<b>TBC</b>	<b>129,035</b>

#### *All fees exclude VAT*

Note 1: For 2019/20 and 2020/21, we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors including changes in risk profile of the audit and increases in regulatory standards. Further detail on this proposed increase was included in our previous reports to the Committee. We have proposed an increase of £39,360 to the scale fee to reflect these additional requirements and have shared details of the breakdown with management. For 2019/20, we also proposed an additional fee of £24,036, as detailed in our 2019/20 Annual Audit Letter. This reflected the increased audit work required in regard to: valuations of land and buildings and investment properties; the group accounts as well as the fact that 2019/20 was the first year of existence of East Suffolk Council; the impact of Covid-19 on a number of areas included the bad debt provision, going concern disclosures, and the material uncertainty in the property valuer's report. PSAA have determine and overall additional fee of £33,136 for 2019/20.

Note 2: For 2020/21, the additional fee will be quantified after completion of audit and will be discussed with the management before submission to PSAA. PSAA will determine the final fee. There will be a significant additional fee as a result of the rent setting issue which has impacted on both our opinion and value for money work.

Note 3: PSAA published additional information for 2020/21 audit fees in August 2021, whereby PSAA provided guidance about the range of minimum additional fee in certain areas of audit. The figures above are the ranges or minimum fee set by PSAA. PSAA also revised its hourly rates for calculating the additional fee variations.

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